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The role of guanxi networks in the performance of women-led firms in China

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Abstract

This exploratory paper examines how knowledge acquired via guanxi (networks and connections) have enabled women-led firms in China to overcome a number of significant barriers and challenges in order to start and grow a successful business. We draw upon two case studies, in order to illustrate how they have utilized guanxi as a means of overcoming these barriers. We investigate the way in which guanxi facilitates the business owner in engaging in a process of entrepreneurial learning (Harrison and Leitch 2005; Politis, 2008) – and making connections and contacts – by which she is able to improve the firm's performance. Further research is necessary to build upon a small number of studies that have already cleared the ground in terms of guanxi. More reliable and country-wide, but disaggregated, statistics on small businesses would be a welcome start, including information on their owner-manager's or owner-managers' gender.

1. Introduction

This exploratory paper, drawing upon two illustrative case studies, examines how Chinese women-led firms have utilized guanxi to start and grow a successful business. When conceptualizing China as a transition or post-socialist economy, it is important to distinguish between the notion of classic 'entrepreneurship' as an activity engaged in by Kirznerian opportunity-seeking entrepreneurs and business 'proprietorship' (in which there is a lack of reinvestment of retained profits in the business and, therefore, limited growth aspirations – Scase, 2003; Smallbone and Welter, 2009). Indeed, Bosma and Harding (2007, p. 15) report that fewer than 40 per cent of Chinese early-stage entrepreneurs were motivated by necessity (push), compared with 60 per cent who were pulled towards opportunity. The ratio of opportunity to necessity entrepreneurship for Chinese men was 1.57 but for women it was only 1.11 (Allen et al., 2008, p. 20). Although these figures must be treated with some caution, and we are talking about ownership/self-employment as opposed to recent new venture creation, they do support the GEM findings that the level of women's entrepreneurship is lower than that of men (Baughn et al., 2006; Allen et al., 2008). Such contradictions, official statistical fiction and variations in survey results make it difficult to pinpoint exactly the level of established and nascent small business ownership by women. In the paper we investigate the way in which guanxi facilitates the business owner making connections and contacts – by which she is able to improve the firm's performance. Conceptually, gender equality can be linked to the communist danwei, 'a multi-functional organization which combines productive and reproductive functions', which the reforms envisaged severing, hence potentially leading to increased gender inequality (Stockman, 1994, p. 759).

The paper is structured as follows. We first review the position of women in employment, as a broad context to their entry into entrepreneurship (Section 2), then conceptualise the role of guanxi as a culturally specific form of socio-cultural capital (Section 3), present illustrative case studies (Section 4) followed by some preliminary conclusions and suggestions for future research (Section 5).

2. The position of women in employment in China

Economic restructuring, marketization and privatization has changed the world of work, management and entrepreneurship for women in the People's Republic of China (henceforth referred to as China). The restructuring, privatization and, in some cases, abolition of many state-owned enterprises (SOEs), as a response to international pressures and increasing globalization, has no doubt changed the nature of the culture and social capital in China and in particular will have influenced the nature of gendered relationships in Chinese society. Alongside a raft of equal opportunities legislation, women in China have near parity with men in terms of quantity, if not quality, of participation in the labour market (Cooke, 2004, 2005). Indeed, the quality versus quantity debate is particularly important in the Chinese context. One study found that women's job mobility prospects in China have declined, perhaps due to lower levels of regulation from the state (Cao and Hu, 2007). Indeed, there appears to be discrimination against women, for example, in promotion procedures (Cooke, 2001, 2004), which Cooke (2001, p. 347) ascribes to, 'the weakening power of state administrative intervention, the development of the market economy, the looseness of the legislation and the discriminatory nature of some of the regulations themselves'. While commentators such as Cooke (2005) envisage economic reforms and privatization as generating employment opportunities for women, economic restructuring and globalization may actually disadvantage 'older, less educated women workers', which Liu described as the 'unlucky generation' (Liu, 2007a, p. 151).

Recent large-scale factory layoffs are also more likely to affect older women, who are becoming further marginalized. However, while it is clear that there are winners and losers in the globalization process (Stiglitz, 2003), and the losers include older women (Liu, 2007a, 2007b), we would argue that the winners include those women who have fulfilled their entrepreneurial dreams. Nevertheless, there remains concern among analysts about the negative effects of deregulation, privatization and the looser hand of the state. This looser hand of the state, whilst promoting progress and meteoric economic growth has, in the view of Berik et al. (2007), led to a number of disadvantages for women, such as 'disproportionate' numbers of women being made redundant in SOEs and increasing wage inequalities, and hence they argue for 'reprioritizing equity and welfare on the policy agenda'. This has significant implications for the economic role and social position of women in Chinese society. There is occupational segregation of the workforce by gender (Cai and Wu, 2006), which leads to inequalities in both work and pay. Zhang et al. (2008), however, suggest that in China's cultural context it is women who are married with children (just as in the West – Jennings and McDougald, 1997), who must balance housework and family duties, that experience the greatest levels of such inequalities.

Furthermore, there are few 'career breaks' to cover maternity leave and child-rearing obligations, nor is part-time work widely practised (Cooke, 2004, p. 244). Foreign direct investment (FDI) in China has, in the long run, appeared to have provided greater 'wage gains' to men than to women (Braunstein and Brenner, 2007). Shu et al. (2007) found gender differentials in FDI employment, with women concentrated in lower-paid 'export-oriented manufacturing industries' rather than 'high-paying foreign firms and joint ventures'. In the rural context, the process of marketization has shifted men into non-farm jobs while not necessarily excluding women from such jobs, particularly where there are insufficient numbers of male workers (Matthews and Nee, 2000). Elsewhere, job insecurity and harsh 'working conditions' of women migrant workers has been identified (Ngai, 2004), as well as increasing marginalization (Tam, 2008), reinforcing difficulties faced by migrant workers in China (Feng and Anan, 2003; Liang and Chen, 2003).

For some, mainly older, women in the ‘unlucky generation’, opportunities for working altogether have been significantly restricted due to the closure of factories and large-scale redundancies that accompanied the privatization process (Berik et al., 2007; Liu, 2007a, 2007b). For younger women, there have been new job opportunities. However, although almost as many women as men work in China, for some this is by necessity due to low wages. Furthermore, there is low representation in more senior roles often due to opaque promotional procedures (Cooke, 2001, 2004, 2005, 2008b; Catalyst, 2008), compounded by poor job mobility prospects (Cao and Hu, 2007), occupational segregation (Cai and Wu, 2006), work and pay inequalities particularly for married women with children (Zhang et al., 2008) and for those working in externally owned, FDI-funded plants (Braunstein and Brenner, 2007; Shu et al., 2007), and in particular for women migrant workers (Feng and Anan, 2003; Liang and Chen, 2003; Ngai, 2004; Tam, 2008). The ‘bamboo curtain’ (Tan, 2008) and the economic opportunities now open to many women (Cooke, 2005) have influenced the creation of many new ventures that are women-led. However, many of these are clearly necessity entrepreneurs (Bosma and Harding, 2007; Allen et al., 2008) because of the extreme labour market disadvantages and inequalities highlighted above.

Although there is evidence that 91 per cent of businesses have women in senior management roles (Catalyst, 2008), this finding fails to indicate the percentage of women in such businesses and may be, as Cooke (2008b, p. 30) suggests, simply a case of Kanterian ‘tokenism’ where there is a ‘guaranteed seat system’ for women but often only one woman senior manager. Indeed, as Catalyst (2008) reported in 2005, 16.8 per cent of legislators, senior officials and managers were women and Cooke (2008b, p. 26) found that, ‘only 0.7 per cent of women worked as heads of organizations in 2004, compared with 2.5 per cent of men’. While nine out of ten businesses have women senior managers, only one in six of senior managers and one in four organizational heads were women (Catalyst, 2008; Cooke, 2008b). As we stated earlier, management research in China is bedevilled by a lack of reliable data and so we remain cautious about these figures. Nonetheless, while the quantity of women working appears to be high, the quality of such jobs and the future promotional prospects for many of the women employees is relatively low compared with those of men. Women managers in China must rely upon *guanxi* with those higher up the organization to advance their careers, while there is also emerging a new generation of ‘younger and highly educated’ women managers with ‘a modern outlook’ compared with the more ‘masculine’ middle-aged women managers (Cooke, 2008b, pp. 32–4). An alternative to waged employment, small business ownership is considered in the next section: there is, of course, a possible generational effect in this scenario, in that entrepreneurial careers and business ownership is most likely to appeal to the post-Cultural Revolution generation.

3. The role of *guanxi* connections as a culturally specific form of social capital

Guanxi connections are a culturally distinct form of social capital, which has been variously defined as “special relationships” (Anderson and Lee, 2007, 2008) and as “personal connections between two or more people” (Chen and Chen, 2008), or “socio-cultural capital” (Hussain et al, 2010). While much has been written on the general development of the Chinese economy, and on the emergence of an entrepreneurial economy in particular, there have been fewer in depth studies of the micro-dynamics of the entrepreneurial process, focussed on issues of growth and *guanxi* (Luo 2007; Chan 2010). Therefore, it is important to understand the role of *guanxi*, by first conceptualising *guanxi* more generally before applying this concept to entrepreneurial growth.

Work–family conflict has been widely cited in Western literature as a constraint for women entrepreneurs (Jennings and McDougald, 2007) and managers, and would appear to be of salience in the Chinese context despite smaller families due to the one-child policy. Other researchers have explored the critical success factors – such as diversification, internationalization, innovation, quality management, strategy and an entrepreneurial approach, in high-performance Chinese SMEs (Cooke, 2008a). We argue that it is critical in this context to understand the role of *guanxi* as it impacts upon women in the labour market (Yueh, 2006) and the nature of gender as a construct and its reality in the society and culture of China (Zheng, 2003). Paralleling the importance of familial collectivism (Chua et al, 2009; Bond and Hwang, 1986; Yang, 1988; Redding and Wong, 1986) in Chinese society, it has been argued that *guanxi* mirrors this in social and, especially, business relationships: in effect, *guanxi* is “an extension of family norms to business settings” (Chua et al, 2009, 502). Furthermore, Chen and Chen (2004, p. 308) highlighted a typology (as with social capital – bridging, bonding, etc.): ‘family ties (kinship), familiar persons (e.g., former classmates and colleagues), and strangers (with or without common demographic attributes)’. In the entrepreneurial context, “the Chinese strong emphasis on networking and on heavy reliance on family and kin ... has led to several consequences: for example, preference for the family firm, its relatively small size, and a focus on personal networking and management” (Chan 2010, 481), which extends into the international domain where emigrant Chinese entrepreneurs operate in a network of *guanxi* as the foundation for stronger links among businesses across borders (Luo 2007, 109). In addition, other professions have high barriers to entry and social status and *guanxi* builds on social structure and offers an informal systematic framework aiding entrepreneurial activity that exploits formal and informal relationships.

While *guanxi* can be referred simply as a relationship, an important subset of relationships that work according to norms of reciprocity and that bond the partners through the reciprocal exchange of favours and mutual obligations (Ordóñez de Pablos, 2009; Alston, 1989; Luo, 1997). The importance of Confucian culture and spirituality in Chinese management practices and in influencing individuals to become entrepreneurs should not be underestimated (Redding, 1990; Stewart et al., 2008; Wong, 2008), although conversely Long and Han (2008) have argued against “cultural determinism” of entrepreneurship, believing economic reasons to be more prevalent. However, given that Chinese capitalism relies upon deeply-embedded, “complex webs of family networks and personal relationships [. . .] an informal system of social relationships and family obligations” (Yeung, 2008, pp. 31-2) in which *guanxi* plays a central role, culture is clearly vitally important. Meanwhile, “organizational imperatives” (i.e. survival) and the “homogenizing influence of globalization” – because firms are also “embedded in the global economic milieu” – (Chen et al., 2008, pp. 150-2) may cause a shift from an informal (*guanxi*) to more formal (bureaucratic or procedural) approach, an important element of what Yeung (2008) refers to as “hybrid capitalism” (Zheng and Scott, 2011).

While there is considerable evidence on the use of *guanxi* in business management and entrepreneurship (Anderson and Yiu-chung Lee, 2008; Bian, 2008; Chen and Chen, 2004; Chen et al., 2008; Szeto et al., 2006), its role in how owner-managers – whether women or men – acquire finance is less well understood. Equally, it is the socio-cultural reality that *guanxi* is the *modus operandi* in traditional Chinese business practices. Within this, as recent research on trust in Chinese and American business practice has suggested (Chua and Morris, 2006; Chua et al., 2009), Chinese managers actually have more kin (family members) in their professional networks. In other words, *guanxi* is not just an extension of familial collectivism to business settings, it is also based on interaction with family members.

3.1 Guanxi, performance and women entrepreneurs

We have attempted to undertake our investigation using a gender-neutral lens of analysis and have avoided adopting the ‘masculine’ as a benchmark or norm (Ahl, 2006), and we first explore below some of the barriers to women starting and growing a new venture in China. To do so, we draw upon Elam’s (2008) practice theory-based analytical framework, which builds upon earlier work by Bourdieu (1986) and others. Hence, we have arranged the following meta-analysis in terms of Bourdieu’s forms of capital, that is, economic capital, cultural capital, social capital and symbolic capital (Bourdieu, 1986), which by implication leads to ‘structured social action’ (Elam, 200, p. 4). A limitation of this approach is the overly structuralist, rather than agency theory approach of Bourdieu (ibid.), and also the Western European, that is, Francophone, bias of his study. However, it is a sophisticated conceptual framework that enlightens us as to women’s barriers. Our contribution to the further development of this conceptual model is that in the Chinese context of the primacy of the family and the indivisibility of society and culture, contrary to the more individualistic and culturally diverse West, we have collapsed Bourdieu’s social capital and cultural capital into one overarching concept, of ‘socio-cultural capital’, which more accurately captures guanxi and associated Chinese socio-cultural traditions and norms. Next we explore women’s entrepreneurship in China in terms of economic, socio-cultural and symbolic capital. As a result, it may be regarded as somewhat ambitious to attempt to apply the approach of Bourdieu to the concept and practice of guanxi (see also Luo, 1993, 2007) – however, new theory development and testing is necessary, in order to compare the Western practices and concept of social capital (as highlighted in seminal studies of Bourdieu and others in order to understand the mechanics of how guanxi in Chinese firms contribute to performance).

First, we explore economic capital related barriers including assets and finance. Theoretically, in the Western context, we know that having money and inheritances is a predictor of entrepreneurial start-up and, indeed, liquidity constraints are a major barrier to start-up (Blanchflower and Oswald, 1998). However, given the weaker property rights and lower levels of capital accumulation in China, we can posit that a lack of sufficient economic capital to start a business is likely to be a barrier for many Chinese women on their own. In tandem with husbands or family, this we would expect to be less of a barrier. Thus, many Chinese women remain tied to men and depend upon their support for the entrepreneurial venture, for personal capital. That begs the question, what of banks? Bank loans were used by fewer than 4 per cent of Chinese firms in one study (Gregory and Tenev, 2001). Wang (2004, p. 34) revealed that external capital is not accessible to many firms due to, ‘lagging in the banking system, an inadequate financial structure, lack of a guarantee system’. Smaller, high-growth, private sector firms in China experienced fewer liquidity constraints than larger companies and also prefer the ‘informal credit market’ (Chow and Fung, 2000, p. 365). However, these authors also found that state-owned banks would not fund small private firms and thus there appeared to be a ‘lending bias’ (ibid., p. 371), which is likely to extend to women-led firms, unless they access finance informally through guanxi. There is little evidence that women experienced ‘discouraged borrowing’ or undercapitalization or undertook ‘bootstrapping’ financing strategies. Women, therefore, appear to be no more disadvantaged in obtaining finance than men in China and both women- and men-led firms appear to be significantly stronger in relation to having enough finance to grow than at the start-up phase (Scott et al., 2009). However, whether or not they can access finance more easily than men (with or without the assistance of men, family or guanxi), it appears that financial barriers affect perhaps as many as a third of women entrepreneurs in China.

Second, barriers emerging from socio-cultural capital centre largely on *guanxi* relationships, a form of social capital that is highly culturally determined and may be conceptualized as being ethereal or intangible. We found that fewer women use *guanxi* to access finance (Scott et al., 2009). Why might this be? And might it affect the use of *guanxi* in other business transactions and, therefore, the future performance of the firm? Cooke (2005, p. 21) highlights a major barrier for women managers, which no doubt applies too to women entrepreneurs, in that if they interact too closely with male contacts in their *guanxi* network there may be, ‘rumours which can be highly damaging to their career because of the relatively low tolerance by Chinese society of close relationships between men and women outside marriage’. Although a rather old study, Hisrich and Fan (1991) found relatively poor levels of education (institutionalized cultural capital, according to Bourdieu, 1986) amongst women business owners, which is being rapidly transformed due to the emergence of a highly educated new generation of entrepreneurs. Education can thus be an enabler rather than a barrier to women’s entrepreneurial success.

Third, and finally, symbolic capital-related barriers (which Elam, 2008, p. 47 describes as ‘legitimacy, social approval, prestige, status, symbolic power’) are highly important in a nation with such a traditional and long-established culture such as China. Women’s careers are often secondary to their husbands’ (Cooke, 2004, p. 255) and the glass ceiling, or the ‘bamboo curtain’, may be a significant constraint for women, even in new-technology-based firms (Tan, 2008). On the one hand, where a woman may seek to start a business for reasons of necessity, there are no doubt additional benefits of legitimacy or social approval and status. Despite increasing opportunities, women entrepreneurs face difficulties at the work–family interface in relation to housework (Kitching and Jackson, 2002). Consequently, given that ‘reasons for start up are more family oriented, more for assisting their husbands or more for obeying parental requests’ (Chu, 2000, p. 82), this finding ties in with the concept of *danwei* (Stockman, 1994). However, on a more positive note, family support for women to start businesses (whether due to social approval or not) would be critical for the subsequent success of the venture, and such support is likely to be present in a highly family-oriented society such as China.

Our key outcome is a conceptual model explaining this process in the context of gender differences and socio-cultural barriers (cf Bourdieu, 1986; Elam, 2008). The above brief review of barriers to women’s entrepreneurship has highlighted a unique set of issues related to economic, socio-cultural and symbolic capital that ought to be explored further in future in-depth research and should inform policy-makers in China.

4. Two illustrative case studies

This section highlights some case examples of women entrepreneurs in China.

CASE A: CHIEF EXECUTIVE, GUANGZHOU

Case A is aged 46 and is Chief Executive of a hair products manufacturer in Guangzhou with over 1000 employees. She graduated from Huanan Science & Engineering University and majored in Chemistry. Her business expanded rapidly about three years ago and increased its yearly revenues to over 2 billion renminbi (RMB) (due to the use of extensive *guanxi*-related networking and contacts), while prior to this the business had remained flat at around 0.2 billion a year during the first ten years or so. She said that, ‘Business is a pleasure for me. I need to earn but I do not totally depend on this income. Success is measured in different ways: I think my measure of success has changed as I lived overseas [in the past]. I believe in hard work but not so hard that I do not have a life. Perhaps my comfort level has robbed me of my heritage’.

During the early stage, she relied upon mentors, 'I learnt that mentoring or someone taking an interest in your career is not purely a Chinese phenomenon but equally operates in the West: but in the West mentoring takes place in a university or at an employer and, in the case of China, family and friends may have carried out this role. However, the family and friend mentors may not have the expertise or experience to empower you. So the Chinese system may have more people who are mentored, but this may be not as effective if the standard of mentoring is not so great'.

In terms of relationships, she believed that women have to be, 'as tough as men in the business world', and she commented that: 'Men are men wherever they come from, but remember that men are not as innocent as they may appear from their looks; they are equal in mischief to Westerners, if not more. In such an environment, there are a lot of challenges for women and China is not an exception'. She managed to overcome barriers, such as finance, in terms of having the right networks and connections (*guanxi*) and noted that, 'The family's standing and financial position is a key factor in one's success and in my case these two factors just converged'.

When asked what she means by success, as she considers herself a successful woman entrepreneur, she replied that: 'A quick increase in turnover, profit and growth: you cannot wait for things to tick in China. Success in China is linked with one's personal standing, achievements and status: all these three things need to have some level of recognition. And gaining a listing on the stock market is a marker of achievement'. Finally, she said that she believed that 'every business has challenges but in China business challenge is to make money before everyone else copies your idea, so you need to have money ready to enter and move quickly otherwise you cannot just wait to raise money once you are in the business'. For example, in China every business tries to enter a 'blue sea' (niche market) to be successful before it turns into a 'red sea' (mature market), in which many businesses are fighting for a position in that marketplace.

CASE B RESTAURATEUR, BEIJING

Case B is a 39-year-old restaurateur in Beijing, with over 87 employees. She has high-school-level education and has been married twice. She was a housewife during her first marriage but, after divorce she had to look after herself. She worked for a restaurant for three years prior to starting her own business, using her savings and financial support from her parents, eight years ago. She described her business as 'excellent' and her turnover increased from zero in the first year to almost 1.2 million RMB per year. She achieved strong profit margins of around 65 per cent but her emphasis is on achieving return customers and she noted that, 'Chinese customers and markets are unforgiving: there is no loyalty without standard, quality and value for money, they just move on if they do not get satisfaction, I have to perform and perform every evening to keep my reputation, customers and business'.

She emphasized that, 'I learnt that I need to keep myself happy. I married again four years ago. My husband has his own export business and that suits me well. We have one child. I do spend more time with my child now. I think it is important but my parents are so much help. I have to work late sometimes too and that is a problem. Business does takes time and energy out of one's life. Nothing comes free in life: that is what I have learnt'.

She highlighted the importance of guanxi to overcoming barriers to her success: 'There were so many social contacts but a few were like gold dust: they knew how suppliers tick and how government officials work, they were able to provide me with real useful contacts and that was the greatest help.'

And 'Breaking into certain networks in China is difficult, but once you do, all you need are the right contacts. These contacts interact and feed one another; that is where there is a challenge for a woman in China. Success depends on finding the right niche [in which she considers her business to be] and knowhow: if these two can be brought together then it is magic. I have been lucky in that I managed to network, find a niche market where there was no competition when I started but things are becoming difficult as more Chinese return from abroad with competence and skills'.

5. Conclusion

The significant economic restructuring of the Chinese economy has transformed the playing field for women in the context of a generational shift of economic opportunities from the old to the young (in a sense, an 'opportunity redistribution'), a quality versus quantity debate and very mixed experiences for women of different social, spatial, demographic and other backgrounds. Levels of business ownership among men remain higher than women as in many other countries, although not to the same extent as elsewhere (Cooke, 2005; Baughn et al., 2006; Bosma and Harding, 2007; Allen et al., 2008). Our stories of success highlight that, although men dominate guanxi networks, family background (and support from parents and spouses), experience, training, education and finance are key success factors influencing the performance of women-led firms.

Given the emergence of women entrepreneurs in China, both Kiznerian and Scasean (Scase, 2003; Smallbone and Welter, 2009), yet remaining stubbornly belong the rate of men's entrepreneurship (Baughn et al., 2006; Allen et al., 2008), the important role of guanxi in delivering sustainable growth of such women-led firms cannot be overestimated. With its distinct character and protocols in terms of mutuality, reciprocity and trust (Chen and Chen, 2004; Ordóñez de Pablos, 2009; Alston, 1989; Luo, 1997; Yeung, 2008) and its extension into the domain of business and commerce (Anderson and Yiu-chung Lee, 2008; Bian, 2008; Chen and Chen, 2004; Chen et al., 2008; Szeto et al., 2006), it is inevitable that plays a key role in growing women-led firms. The two cases in this study demonstrate, notwithstanding various definitions of 'success', the importance of mentors in the guanxi network help to develop women's business acumen, and also of knowing the right contact to help overcome barriers and make contacts.

This exploratory study has a number of limitation; for example, the social nature of guanxi compared to the much more financial measure of performance. Whilst there is limited primary and secondary data, we have been forced to conceptualize how guanxi might improve performance of firms in China and then draw upon several illustrative case studies to demonstrate how this occurs. Future research would aim to draw from a much larger number of case studies and then build upon this baseline with a much larger statistical survey in order to attempt to measure the impact of guanxi upon performance. Therefore, a substantial programme of further research is necessary in order to build upon a small number of studies that have already cleared the ground in terms of women's entrepreneurship in China. Research questions for future studies would include how to facilitate women entrepreneurs to take the first step to start their new venture but also, more importantly, how to ensure that they are successful in exploiting guanxi effectively.

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